



CITY OF MANASSAS, VIRGINIA

MAYOR
Harry J. Parrish II

CITY COUNCIL
Andrew L. Harrover, V. Mayor
Marc T. Aveni
Ian T. Lovejoy
J. Steven Randolph
Jonathan L. Way
Mark D. Wolfe

CITY MANAGER
W. Patrick Pate

December 19, 2013

Honorable Mayor Parrish, City Council Members and Citizens
City of Manassas
Manassas, Virginia:

The Comprehensive Annual Financial Report (CAFR) of the City of Manassas, Virginia, (the City) for the fiscal year ended June 30, 2013 is hereby submitted. The Code of the Commonwealth of Virginia requires that all local governments shall be audited annually with a report to the governing body by December 31. This report is published to fulfill that requirement.

As management, we assume full responsibility for the completeness and reliability of all the information contained in this report. To provide a reasonable basis for making these representations, we have established a comprehensive internal control framework that is established for this purpose. Because the cost of internal controls should not outweigh their benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City's financial statements have been audited by Robinson, Farmer, Cox Associates, a firm of licensed certified public accountants. The independent auditor has issued an unqualified ("clean") opinion on the City's financial statements for the fiscal year ended June 30, 2013. The independent auditor's report is located at the front of the FINANCIAL SECTION of the CAFR.

Management's Discussion and Analysis (MD&A) is found immediately following the independent auditor's report. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

The independent audit of the financial statements of the City was part of a broader federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. These reports are available in the SINGLE AUDIT SECTION of the CAFR.

Profile of the City

The City is located thirty miles southwest of Washington, D. C. It has an area of ten square miles with an estimated population of 39,902. The Town of Manassas received its charter in 1873. In May of 1975, the Town of Manassas became a city.

The legislative and policy making body of the City is the elected Mayor and a six member City Council, elected at large for staggered four-year terms. The City Council appoints the City Manager who serves as the Chief Administrative Officer. The School Board members are also elected at large for staggered four-year terms. The School Board appoints the Superintendent as the Chief Administrative Officer for the school system. Other elected City officials are the Commissioner of the Revenue and the City Treasurer. Also, elected officials shared with Prince William County are the Commonwealth's Attorney, Clerk of the Court and Sheriff. The judges of the Circuit Court, General District Court, and the Juvenile and Domestic Relations Courts are appointed by the state legislature.

The City provides the full range of municipal services including public safety (police, fire, and rescue), highway and streets, health and social services, public improvements, planning and zoning, recreation and cultural services, and general administrative services. The City also operates eight proprietary functions: the electric, water and sewer utilities, solid waste collection, a regional airport, a pavilion, a performing arts center, and rental property in Manassas Landing.

The City of Manassas Public Schools (MCPS) is included in this report as a discretely presented component unit. MCPS does not issue its own financial statement; therefore, you will find fund statements for MCPS beginning on page 119. There are no other entities in the report.

The City Council and the School Board adopted a joint resolution in February of 2009 committing to budget planning and revenue sharing. The City will transfer 58.5% of general tax revenues to the Schools annually. Each year both bodies will adopt a five-year forecast. When they adopt their annual operating budgets, each will also adopt a Five-Year Capital Improvement Plan consistent with the projected revenues.

The annual operating budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit their recommended budgets to the City Manager in January. The City Manager uses these recommendations as the starting point for developing his proposed budget. The City Manger presents this proposed budget to the City Council at the end of February. The School Board presents the proposed budget for MCPS to the City Council by April 1. The City Council holds numerous public work sessions on the budget in March and April. Council is required to hold a public hearing and adopt a budget by June 30 for the fiscal year beginning July 1. MCPS budget is appropriated and controlled at the total budget level. The City's appropriated budget is legally controlled at the fund level. City Council must approve all transfers between funds. Department directors may make transfers of appropriations within a department and the City Manager may transfer between departments within a fund.

Local economy and long-term financial planning

The City continues its recovery from the great recession. The Commissioner of the Revenue, John Grzejka, released the real estate assessments for the 2013 tax year (values as of January 1, 2012) in late January. Residential assessment increased 7.0% and commercial assessment increased 1.9% for a combined increase of 4.9%. The 2012 residential/commercial ratio is 60.7 / 39.3, a small change from the 2011 ratio of 59.2 / 40.8. Other tax revenues continue the growth that began the year before last. For FYE 2013 sales tax revenue increased by 8.3 percent, revenue from the meals tax grew 6.9 percent, and other local taxes increased 2.7 percent. Overall local taxes were up by 5.6 percent for the year.

On June 27, 2012, Moody's affirmed the City's Aa1 bond rating and removed the negative outlook placed in June 2010. Moody's report stated that the removal "reflects the improvement in the City's financial position due to operating adjustments made to alleviate fiscal pressures over the past two fiscal years". Moody's further stated that the city "has begun to show signs of recovery" and the City's solid financial position is "expected to remain steady in the near future." During the recession, the City maintained a general fund unassigned fund balance at 13 percent of operating revenue. In 2009 City Council established a policy requiring a 13 percent unassigned fund balance be maintained. In FYE 2013 as well as in the previous three past fiscal years, the City has been in compliance with Council's policy.

Awards and acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Manassas for its CAFR for the fiscal year ended June 30, 2012. This was the twenty-eighth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report could not be accomplished without the dedicated services of the entire staff of the Finance and Administration Department. We would like to express our appreciation to all members of the department and most especially to Bonni Johnston for publishing the CAFR. The Mayor and the members of the City Council are to be commended for their support in strategically planning and managing the fiscal policies of the City.

Respectfully submitted,



William Patrick Pate
City Manager



Diane Bergeron
Acting Director,
Finance & Administration

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Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Manassas
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

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**CITY OF MANASSAS, VIRGINIA
CITY COUNCIL**

Harry J. Parrish II, Mayor
Andrew L. Harrover, Vice Mayor
Marc T. Aveni
Ian T. Lovejoy
J. Steven Randolph
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CITY MANAGER
William Patrick Pate

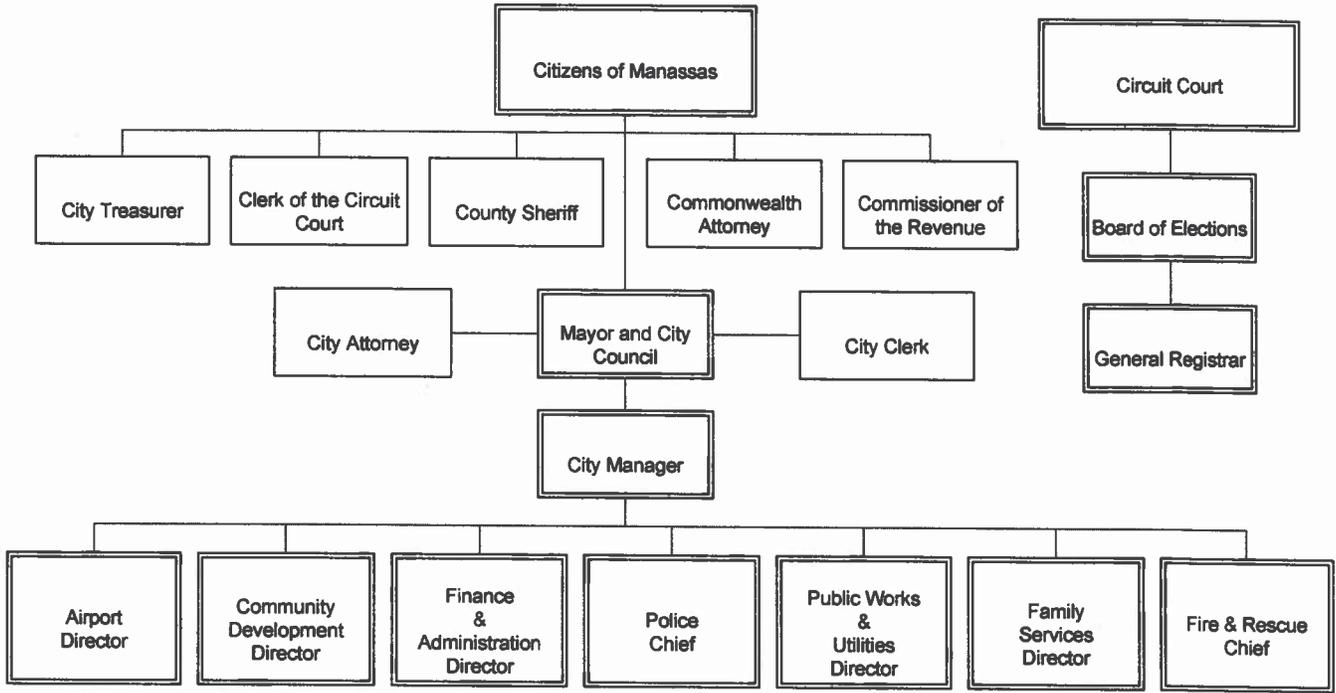
**CITY OF MANASSAS PUBLIC SCHOOLS
SCHOOL BOARD**

Scott M. Albrecht, Chairman
Arthur P. Bushnell, Vice Chairman
Ilka V. Chavez
Timothy J. Demeria
Ellen M. Purdy
Pamela J. Sebesky
Sanford S. Williams

SUPERINTENDENT OF SCHOOLS
Dr. Catherine B. Magouyrk

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CITY OF MANASSAS ORGANIZATIONAL CHART



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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Members of the City Council
City of Manassas, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Manassas, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Manassas, Virginia, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15-25, budgetary comparison information, and schedule of pension and OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manassas, Virginia's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 on our consideration of the City of Manassas, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Manassas, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates
Fredericksburg, Virginia
December 19, 2013

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CITY OF MANASSAS, VIRGINIA

Management's Discussion and Analysis June 30, 2013

As management of the City of Manassas, Virginia (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-3 of this report. Throughout this section, information is presented about the City, the primary government. We have also included information about the "Total Reporting Unit", which is the total of the City and its only component unit, the Manassas City Public Schools (MCPS). Due to the material relationship between the City and MCPS, we believe that Total Reporting Unit information more accurately reflects the financial condition of the City of Manassas.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Total Reporting Unit exceeded its liabilities and deferred inflows of resources at June 30, 2013 by \$362,822,549 (net position). \$277,865,729 of the Total Reporting Unit's net position is invested in capital assets and \$100,000 is restricted in its use. The remaining net position, \$84,856,820 is not restricted.
- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows at June 30, 2013 by \$312,272,230 (net position). \$263,653,639 of the City's net position is invested in capital assets, \$100,000 is restricted in its use, and the remaining balance of \$48,518,591 is unrestricted net position. The deficit in unrestricted net position of the Governmental Activities (\$2,884,806) is the result of bonds issued by the City for MCPS. This debt is reflected as a liability of the City. However, the schools built with the bond proceeds are the assets of MCPS. At year-end, the City has \$31,994,500 of debt outstanding relating to MCPS school buildings.
- The unassigned fund balance for the City's general fund at June 30, 2013 was \$12,136,198. This amount is 12 percent of total general fund revenues of \$98,268,025 for fiscal year 2013. City Council's policy is to maintain the general fund unassigned fund balance at 13% of general fund revenues excluding payment of lieu of debt services from MCPS of \$4,913,003. General fund unassigned fund balance as a percent of general fund revenues as calculated in accordance with the City's Unassigned Fund Balance Policy R-2009-53 is 13 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The Comprehensive Annual Financial Report (CAFR) also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health and welfare, and culture, recreation, and community development. The business-type activities of the City include electric, water and sewer utilities, solid waste collection, a regional airport, a city pavilion, and a performing arts center.

The government-wide financial statements include not only the City (known as the primary government), but also a legally separate school district (MCPS) for which the City is financially accountable. Financial information for the component unit (MCPS) is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 31-33 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the major general fund. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the annual appropriated budget. The City also adopts annual appropriated budgets for five non-major governmental funds - family services, PEG, Owens Brooke district, fire rescue, and Speiden Carper house funds. The budgetary comparison statements for these funds are provided elsewhere in this report.

The basic governmental fund financial statements can be found on pages 36-41 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS: (CONTINUED)

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water and sewer utilities, solid waste collection, a regional airport, a city pavilion, and a performing arts center (Candy Factory).

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, building maintenance, and for its information technology systems. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as business-type activities in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water and sewer utilities and regional airport which are considered to be major funds of the City. The other four enterprise funds are combined into a single, aggregated presentation in the proprietary fund financial statements. The internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the four non-major enterprise funds and the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 42-47 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 49-82 of this report.

Other Information. In addition to the basic financial statements, this report also presents certain required supplementary information. A schedule of funding progress for the City's defined benefit plan is provided.

The combining statements referred to earlier in connection with non-major governmental and enterprise funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 91-117 of this report.

MCPS, the City's component unit, does not issue separate financial statements. Therefore you will find fund statements for MCPS on pages 119-129 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position of the City's governmental activities increased \$3,867,873 in fiscal year 2013 to \$179,402,785. The increase is partially due to increases of \$2,635,585, \$2,485,536, and \$1,335,443 in cash and investments, construction in progress, and machinery and equipment values respectively that offset a \$2,525,033 decrease in infrastructure values as well as lesser declines in various other asset categories. These netted to an overall increase in assets of \$1,840,749. There was net decrease in liabilities resulting for the most part from a \$3,014,505 decline in long-term debt and other long-term liabilities that offset a \$1,956,222 increase in payables. The resulting decrease of \$631,739 in total liabilities and the increase in total assets were the primary contributors to the increase in total net position that ended the fiscal year at \$179,402,785. The unrestricted deficit ended the year at \$2,884,806, a 45 percent reduction from the previous fiscal year.

The net position of the business-type activities increased \$6,433,462 in fiscal year 2013 to \$132,869,445. Program revenues for the electric, water, and sewer utilities exceeded expenses by \$5,642,223 and the business activities transferred \$2,388,660 to the governmental activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

The net position of MCPS has decreased \$3,143,792. This was mainly due to reductions in buildings and improvement values, receivables, and due from other governments of \$3,588,769, \$90,272, and \$322,603 respectively that offset increases in cash and investment, construction in progress, and machinery and equipment values of \$2,873,938, \$166,836, and \$386,302 respectively and brought asset values down by \$574,568. Increases in payables of \$2,308,952 and \$248,352 in long-term liabilities contributed to the decline in net position.

The following tables summarize the Statement of Net Position for the reporting unit as of June 30, 2013.

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012
Current assets	\$ 43,640,762	\$ 42,587,442	\$ 65,363,802	\$ 65,653,478	\$ 109,004,564	\$ 108,240,920
Capital assets	198,828,243	198,040,814	108,094,789	104,127,088	306,923,032	302,167,902
Total assets	<u>\$ 242,469,005</u>	<u>\$ 240,628,256</u>	<u>\$ 173,458,591</u>	<u>\$ 169,780,566</u>	<u>\$ 415,927,596</u>	<u>\$ 410,408,822</u>
Deferred outflows of resources	\$ 1,395,385	\$ 1,534,924	\$ -	\$ -	\$ 1,395,385	\$ 1,534,924
Current liabilities	\$ 8,818,782	\$ 6,506,740	\$ 12,560,701	\$ 12,952,333	\$ 21,379,483	\$ 19,459,073
Long-term liabilities	55,642,823	60,121,528	28,028,445	30,392,250	83,671,268	90,513,778
Total liabilities	<u>\$ 64,461,605</u>	<u>\$ 66,628,268</u>	<u>\$ 40,589,146</u>	<u>\$ 43,344,583</u>	<u>\$ 105,050,751</u>	<u>\$ 109,972,851</u>
Net position:						
Net Investment						
in capital assets	\$ 182,187,591	\$ 180,092,220	\$ 81,466,048	\$ 75,060,225	\$ 263,653,639	\$ 255,152,445
Restricted	100,000	681,134	-	-	100,000	681,134
Unrestricted (deficit)	(2,884,806)	(5,238,442)	51,403,397	51,375,758	48,518,591	46,137,316
Total net position	<u>\$ 179,402,785</u>	<u>\$ 175,534,912</u>	<u>\$ 132,869,445</u>	<u>\$ 126,435,983</u>	<u>\$ 312,272,230</u>	<u>\$ 301,970,895</u>

	MCPS		Total Reporting Unit	
	FY 2013	FY 2012	FY 2013	FY 2012
	Current assets	\$ 22,662,436	\$ 20,201,373	\$ 131,667,000
Capital assets	46,557,996	49,593,627	353,481,028	351,761,529
Total assets	<u>\$ 69,220,432</u>	<u>\$ 69,795,000</u>	<u>\$ 485,148,028</u>	<u>\$ 480,203,822</u>
	\$ -	\$ -	\$ 1,395,385	\$ 1,534,924
Current liabilities	\$ 14,393,188	\$ 12,084,236	\$ 35,772,671	\$ 31,543,309
Long-term liabilities	4,276,925	4,016,653	87,948,193	94,530,431
Total liabilities	<u>\$ 18,670,113</u>	<u>\$ 16,100,889</u>	<u>\$ 123,720,864</u>	<u>\$ 126,073,740</u>
Net position:				
Net Investment				
in capital assets	\$ 46,206,590	\$ 49,095,596	\$ 277,865,729	\$ 268,866,041
Restricted	-	-	100,000	681,134
Unrestricted	4,343,729	4,598,515	84,856,820	86,117,831
Total net position	<u>\$ 50,550,319</u>	<u>\$ 53,694,111</u>	<u>\$ 362,822,549</u>	<u>\$ 355,665,006</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

The following tables summarize the change in net position for the City for the year ended June 30, 2013.

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012
Revenues:						
Program revenues:						
Charges for services	\$ 4,631,664	\$ 5,076,166	\$ 92,603,953	\$ 97,041,793	\$ 97,235,617	\$ 102,117,959
Operating grants, contributions	7,851,624	11,780,598	90,738	151,253	7,942,362	11,931,851
Capital grants, contributions	211,730	-	4,689,233	6,739,940	4,900,963	6,739,940
General Revenues:						
Property Taxes	64,510,210	62,993,668	-	-	64,510,210	62,993,668
Other Taxes	17,516,677	16,593,452	-	-	17,516,677	16,593,452
Unrestricted grants	8,052,773	7,926,918	-	-	8,052,773	7,926,918
City appropriation to MCPS	-	-	-	-	-	-
Other	7,993,493	7,626,565	182,707	241,342	8,176,200	7,867,907
Total revenues	<u>\$ 110,768,171</u>	<u>\$ 111,997,367</u>	<u>\$ 97,566,631</u>	<u>\$ 104,174,328</u>	<u>\$ 208,334,802</u>	<u>\$ 216,171,695</u>
Expenses:						
General government	\$ 8,864,313	\$ 8,339,202	\$ -	\$ -	\$ 8,864,313	\$ 8,339,202
Public safety	28,575,011	25,608,165	-	-	28,575,011	25,608,165
Public works	8,811,937	8,402,865	-	-	8,811,937	8,402,865
Health and welfare	7,046,417	7,046,876	-	-	7,046,417	7,046,876
Culture, rec, development	5,806,374	5,966,162	-	-	5,806,374	5,966,162
Interest on long-term debt	2,170,239	2,421,533	-	-	2,170,239	2,421,533
Electric	-	-	61,167,893	65,525,093	61,167,893	65,525,093
Water	-	-	8,072,824	7,136,356	8,072,824	7,136,356
Sewer	-	-	12,262,895	11,966,185	12,262,895	11,966,185
Airport	-	-	3,563,277	3,505,497	3,563,277	3,505,497
Solid Waste	-	-	3,117,943	3,058,172	3,117,943	3,058,172
City Square Pavilion	-	-	316,921	345,831	316,921	345,831
Candy Factory	-	-	198,263	212,488	198,263	212,488
Parking Garage	-	-	43,863	38,409	43,863	38,409
Education	48,014,667	48,125,649	-	-	48,014,667	48,125,649
Total expenses	<u>\$ 109,288,958</u>	<u>\$ 105,910,452</u>	<u>\$ 88,743,879</u>	<u>\$ 91,788,031</u>	<u>\$ 198,032,837</u>	<u>\$ 197,698,483</u>
Increase (decrease) in net position before transfers	\$ 1,479,213	\$ 6,086,915	\$ 8,822,752	\$ 12,386,297	\$ 10,301,965	\$ 18,473,212
Transfers	2,388,660	1,908,270	(2,388,660)	(1,908,270)	-	-
Change in net position	<u>\$ 3,867,873</u>	<u>\$ 7,995,185</u>	<u>\$ 6,433,462</u>	<u>\$ 10,478,027</u>	<u>\$ 10,301,335</u>	<u>\$ 18,473,212</u>
Net position beginning	175,534,912	167,539,727	126,435,983	115,957,956	301,970,895	283,497,683
Net position ending	<u>\$ 179,402,785</u>	<u>\$ 175,534,912</u>	<u>\$ 132,869,445</u>	<u>\$ 126,435,983</u>	<u>\$ 312,272,230</u>	<u>\$ 301,970,895</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

	MCPS		Total Reporting Unit	
	FY 2013	FY 2012	FY 2013	FY 2012
Revenues:				
Program revenues:				
Charges for services	\$ 1,666,487	\$ 1,879,206	\$ 98,902,104	\$ 103,997,165
Operating grants, contributions	47,351,834	43,190,820	55,294,196	55,122,671
Capital grants, contributions	-	-	4,900,963	6,739,940
General Revenues:				
Property Taxes	-	-	64,510,210	62,993,668
Other Taxes	-	-	17,516,677	16,593,452
Unrestricted grants	-	-	8,052,773	7,926,918
City appropriation to MCPS	48,014,667	48,125,649	48,014,667	48,125,649
Other	9,485	7,585	8,185,685	7,875,492
Total revenues	\$ 97,042,473	\$ 93,203,260	\$ 305,377,275	\$ 309,374,955
Expenses:				
General government	\$ -	\$ -	\$ 8,864,313	\$ 8,339,202
Public safety	-	-	28,575,011	25,608,165
Public works	-	-	8,811,937	8,402,865
Health and welfare	-	-	7,046,417	7,046,876
Culture, rec, development	-	-	5,806,374	5,966,162
Interest on long-term debt	-	-	2,170,239	2,421,533
Electric	-	-	61,167,893	65,525,093
Water	-	-	8,072,824	7,136,356
Sewer	-	-	12,262,895	11,966,185
Airport	-	-	3,563,277	3,505,497
Solid Waste	-	-	3,117,943	3,058,172
City Square Pavilion	-	-	316,921	345,831
Candy Factory	-	-	198,263	212,488
Parking Garage	-	-	43,863	38,409
Education	100,186,265	95,511,906	148,200,932	143,637,555
Total expenses	\$ 100,186,265	\$ 95,511,906	\$ 298,219,102	\$ 293,210,389
Increase (decrease) in net position before transfers	\$ (3,143,792)	\$ (2,308,646)	\$ 7,158,173	\$ 16,164,566
Transfers	-	-	-	-
Change in net position	\$ (3,143,792)	\$ (2,308,646)	\$ 7,157,543	\$ 16,164,566
Net position beginning	53,694,111	56,002,757	355,665,006	339,500,440
Net position ending	\$ 50,550,319	\$ 53,694,111	\$ 362,822,549	\$ 355,665,006

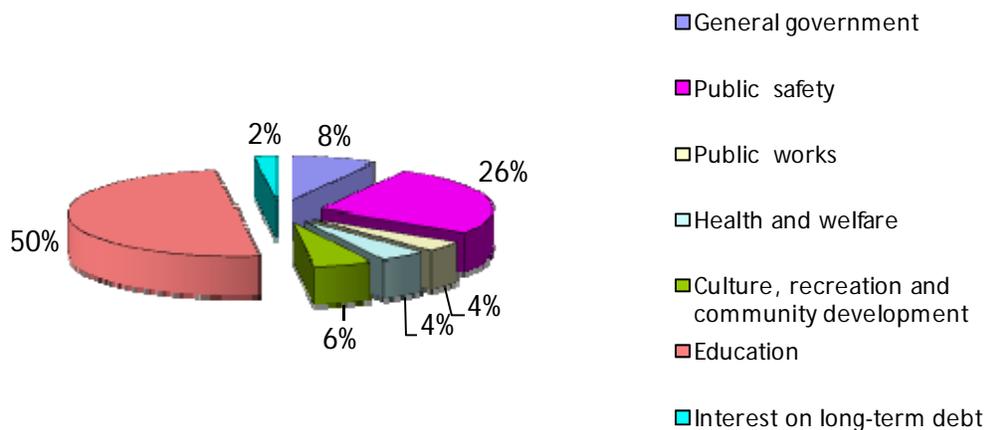
GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

The table below details the governmental activities expenses and program revenues showing the net cost by program/function. The total governmental activities net program/function costs were \$96,593,940, an increase of \$7,540,252 over last fiscal year. As the table and chart below indicate, education continues to be the City’s largest program with expenses totaling \$48,014,667. The education expense in the governmental activities reflects the City’s local revenue which is appropriated to MCPS. The program revenues of education are recorded in the component unit, MCPS, and therefore are not in the table or chart.

Governmental Activities Expenses and Program Revenues

	Program Expenses FY 2013	Program Revenues FY 2013	Net Program Cost FY 2013	Net Program Cost FY 2012
General government	\$ 8,864,313	\$ 1,078,275	\$ 7,786,038	\$ 6,620,932
Public safety	28,575,011	3,450,067	25,124,944	18,926,418
Public works	8,811,937	5,046,339	3,765,598	3,685,581
Health and welfare	7,046,417	2,671,226	4,375,191	3,726,061
Culture, recreation and community development	5,806,374	449,111	5,357,263	5,547,514
Education	48,014,667	-	48,014,667	48,125,649
Interest on long-term debt	2,170,239	-	2,170,239	2,421,533
Total	\$ 109,288,958	\$ 12,695,018	\$ 96,593,940	\$ 89,053,688

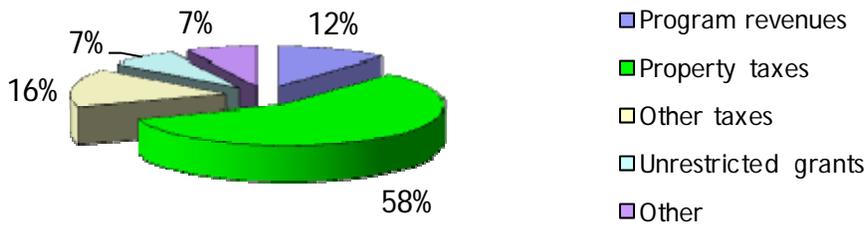
Governmental Activities Net Program Costs



GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

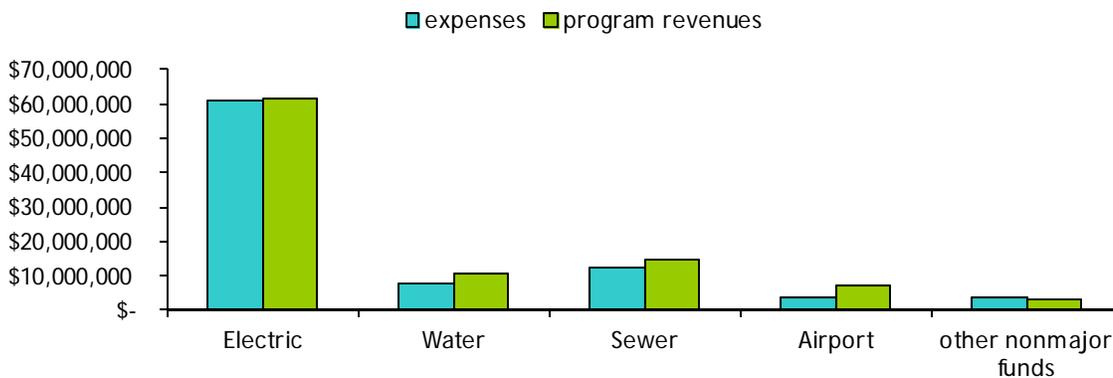
In addition to program revenues of \$12,695,018, there are also general revenues in the governmental activities, which are revenues that are not attributed to any specific program/function. The total general revenues in fiscal year 2013 are \$100,461,813 for total governmental activities revenues of \$113,156,831. General revenues in fiscal year 2013 are \$3,412,940 more than fiscal year 2012, due mostly to an increase in program revenues. The chart below indicates that the property taxes continue to be the largest source of revenue for the governmental activities.

Governmental Activities Revenues



The cost of all business-type activities in fiscal year 2013 was \$88,743,879. As depicted in the chart below, program revenues of \$97,383,924 offset the cost of doing business. The Electric and Airport Funds received grants of \$34,764 and \$4,653,469 respectively in capital grants which are reflected as revenues.

Business-type Activities Expenses and Program Revenues



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of fiscal year 2013, the City's governmental funds reported combined ending fund balances of \$29,879,948, a decrease of \$2,018,224 from fiscal year 2012. The decrease is a net of the \$470,944 increase in non-major funds and a \$2,489,168 reduction in the general fund. The general fund decrease is due to increased expenditures in FY 2013, primarily in public works, public safety, and general government administration.

The general fund is the chief operating fund of the City. At the end of fiscal year 2013, the unassigned fund balance of the general fund was \$12,136,198 while total fund balance was \$20,763,883. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total revenues and expenditures. The unassigned fund balance represents 13 percent of total general fund expenditures, while total fund balance represents 21 percent of those expenditures. The unassigned fund balance also represents 12 percent of total general fund revenues of \$98,268,025 for fiscal year 2013. City Council's policy is to maintain the general fund unassigned fund balance at 13% of general fund revenues excluding payment of lieu of debt services from MCPS of \$4,913,003. The unassigned fund balance as a percent of general fund revenues per the City Council's policy (\$98,268,025 less \$4,913,003) is 13 percent.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The total of net positions at the end of fiscal year 2013 in the Electric, Water, Sewer, Airport, and the non-major funds are \$40,653,272; \$32,749,225; \$20,024,232; \$36,581,772; and \$2,860,944, respectively. The increase or (decrease) in total net position for the Electric, Water, Sewer, and Airport funds are (\$882,783); \$2,122,657; \$1,896,927; \$3,488,961, and \$3,488,811, respectively. Only 38.7% of the total net positions of these funds are unrestricted in its use. The remaining 61.3% is invested of capital assets, net of related debt. The unrestricted nets position at the end of fiscal year 2013 in the Electric, Water, Sewer, Airport, and the non-major funds are \$22,098,551; \$13,961,530; \$14,247,116; \$278,433; and \$817,767, respectively. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

In fiscal year 2013, the City's general fund revenues exceeded the revised revenue budget by \$2,538,688. Expenditures ended the year over the revised budget by \$162,565. The City has a revenue sharing agreement with MCPS which states that if the City does not receive local tax revenue as budgeted, the City support of education will be reduced. Conversely, if local tax revenues exceed the budget, Schools are to receive 58.5 percent of the excess. As required by the City's Unassigned Fund Balance Policy R-2009-53, the School's share of the excess is subject to be used in maintaining an unassigned fund balance of 13 percent as noted in the previous section.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's net investment in capital assets for its governmental and business-type activities as of June 30, 2013 is \$306,923,032, an increase of \$4,755,130 from June 30, 2012. The net increase in the governmental activities assets of \$787,429 is primarily due to increases in the categories machinery and equipment and construction in progress values that are partially offset by decreased values in the categories of buildings and improvement as well as those of infrastructures. The net increase of \$3,967,701 in the business-type capital assets is due primarily to increased construction in progress values partially offset by declines in the categories of investment in plant, buildings and improvements, and purchased capacity.

The following tables summarize the capital assets of the City and MCPS. Additional information on the capital assets is found in Note 5 on pages 61-63 of this report

	Capital Assets FY 2013	Accumulated Depreciation FY 2013	Capital Assets net of Accumulated Depreciation		Net Increase (Decrease) Capital Assets
			FY 2013	FY 2012	
Governmental Activities					
Land	\$ 85,924,921	\$ -	\$ 85,924,921	\$ 85,906,892	\$ 18,029
Buildings and improvements	29,492,670	(21,937,693)	7,554,977	8,081,523	(526,546)
Machinery and equipment	14,222,210	(11,406,399)	2,815,811	1,480,368	1,335,443
Construction in progress	6,455,395	-	6,455,395	3,969,859	2,485,536
Infrastructure	169,885,025	(73,807,886)	96,077,139	98,602,172	(2,525,033)
Total	\$ <u>305,980,221</u>	\$ <u>(107,151,978)</u>	\$ <u>198,828,243</u>	\$ <u>198,040,814</u>	\$ <u>787,429</u>
Business-type Activities					
Land	\$ 9,468,637	\$ -	\$ 9,468,637	\$ 9,468,637	\$ -
Buildings and improvements	4,652,249	(2,658,852)	1,993,397	2,226,012	(232,615)
Investment in Plant	168,380,587	(125,255,558)	43,125,029	47,202,931	(4,077,902)
Machinery and equipment	6,655,235	(5,860,454)	794,781	840,276	(45,495)
Purchased capacity	27,153,049	(12,569,324)	14,583,725	15,970,231	(1,386,506)
Construction in progress	38,129,220	-	38,129,220	28,419,001	9,710,219
Total	\$ <u>254,438,977</u>	\$ <u>(146,344,188)</u>	\$ <u>108,094,789</u>	\$ <u>104,127,088</u>	\$ <u>3,967,701</u>
Total Primary Government					
Land	\$ 95,393,558	\$ -	\$ 95,393,558	\$ 95,375,529	\$ 18,029
Buildings and improvements	34,144,919	(24,596,545)	9,548,374	10,307,535	(759,161)
Investment in Plant	168,380,587	(125,255,558)	43,125,029	47,202,931	(4,077,902)
Machinery and equipment	20,877,445	(17,266,853)	3,610,592	2,320,644	1,289,948
Purchased capacity	27,153,049	(12,569,324)	14,583,725	15,970,231	(1,386,506)
Construction in progress	44,584,615	-	44,584,615	32,388,860	12,195,755
Infrastructure	169,885,025	(73,807,886)	96,077,139	98,602,172	(2,525,033)
Total	\$ <u>560,419,198</u>	\$ <u>(253,496,166)</u>	\$ <u>306,923,032</u>	\$ <u>302,167,902</u>	\$ <u>4,755,130</u>
MCPS					
Land	\$ 2,336,649	\$ -	\$ 2,336,649	\$ 2,336,649	\$ -
Construction in progress	176,854	-	176,854	10,018	166,836
Buildings and improvements	125,787,706	(84,250,838)	41,536,868	45,125,637	(3,588,769)
Machinery and equipment	9,144,846	(6,637,221)	2,507,625	2,121,323	386,302
Total	\$ <u>137,446,055</u>	\$ <u>(90,888,059)</u>	\$ <u>46,557,996</u>	\$ <u>49,593,627</u>	\$ <u>(3,035,631)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION: (CONTINUED)

Long-term debt. The following tables summarize the long-term debt of the City and MCPS. Additional information on long-term debt is found in Note 10 on pages 66-69 of this report.

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012
	General obligation bonds	\$ 47,334,820	\$ 51,881,400	\$ 25,873,516	\$ 28,260,978	\$ 73,208,336
Premium on bonds	2,036,124	2,156,095	755,225	805,885	2,791,349	2,961,980
Capital leases	659,593	828,023	-	-	659,593	828,023
Compensated absences	2,589,286	2,396,010	917,704	870,387	3,506,990	3,266,397
OPEB Obligation payable	3,023,000	2,860,000	482,000	455,000	3,505,000	3,315,000
Total	\$ 55,642,823	\$ 60,121,528	\$ 28,028,445	\$ 30,392,250	\$ 83,671,268	\$ 90,513,778

	MCPS		Total Reporting Unit	
	FY 2013	FY 2012	FY 2013	FY 2012
General obligation bonds	\$ -	\$ -	\$ 73,208,336	\$ 80,142,378
Premium on bonds	-	-	2,791,349	2,961,980
Capital leases	351,406	498,031	1,010,999	1,326,054
Compensated absences	1,972,519	1,931,622	5,479,509	5,198,019
OPEB Obligation payable	1,953,000	1,587,000	5,458,000	4,902,000
Total	\$ 4,276,925	\$ 4,016,653	\$ 87,948,193	\$ 94,530,431

The City's total debt of \$87,948,193 is a net decrease of \$6,582,238. This was due primarily to general obligation bond principal payments of \$6,934,042 in fiscal year 2013. Capital leases were reduced by principal payments while the OPEB obligation payable increased by \$190,000. The net increase to the MCPS total debt is \$260,272 which is primarily the net result of a \$146,625 decrease in the outstanding capital leases and an increase of \$366,000 to the OPEB obligation.

The City's rating for general obligation debt from Standard & Poor's is "AA". The rating from Moody's is "Aa1". This reflects the City's improved solid financial position and prudent fiscal management.

The Code of the Commonwealth of Virginia, as amended, (Virginia Code) limits the amount of general obligation debt the City may issue to 10 percent of the assessed valuation of the real estate subject to taxation. The assessed valuation of the real estate subject to taxation in the City as of January 1, 2013 is \$4,105,113,800 making the current legal debt limitation of the City \$410,511,380. The City's general obligation debt applicable to the limit is \$75,999,685 leaving a legal debt margin of \$334,511,695. Additional information on the City's long-term debt can be found in Note 10 on pages 66-69 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The unemployment rate for the City as of August 2013 was 5.9 percent, which is higher than the state rate (5.8 percent) but lower than federal rate (7.9 percent).
- Real property taxable assessed value increased 4.9 percent in 2013 to \$4,105,113,800, up by \$162,265,900 over the previous calendar year. The City is projecting assessed value to continue increasing marginally in 2014 and estimates a corresponding increase in local use taxes and have taken these factors into consideration in the development of the FY 2013-2014 Budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance and Administration Director, 9027 Center Street, City of Manassas, Virginia, 20110.

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